

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01  
ABF-01 /106 W

-----020944 108534 /13

R 020746Z MAR 77

FM AMEMBASSY BERN

TO SECSTATE WASHDC 3971

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION GENEVA

USDEL MTN GENEVA

AMCONSUL ZURICH

UNCLAS SECTION 1 OF 2 BERN 798

PASS TREASURY AND FRB

EO 11652: N/A

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: FEB 20 - 26

1. SUMMARY: ATTENTION WAS FOCUSED ON SUDDEN RISE IN DOLLAR RATE AGAINST SWISS FRANC FROM SF 2.50 TO SF 2.54, WHICH EXCHANGE DEALERS ATTRIBUTED CHIEFLY TO INTEREST RATE DIFFERENTIALS, INCREASING SWISS TRADE DEFICIT AND TECHNICAL FACTORS. BANKS EXPERIENCED SOME TIGHTNESS OF LIQUIDITY FOR MONTH-END REQUIREMENTS, BUT INTEREST RATES STILL DECLINING IN OTHERWISE HIGHLY LIQUID MARKET. FEDERAL FINANCIAL PROGRAM (BERN 722) RAN INTO CRITICISM THOUGH RESULTS OF ONE POLL SHOWED SUBSTANTIAL VOTER SUPPORT.  
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METAL AND MACHINE INDUSTRY PERFORMANCE IN FOURTH QUARTER 1976 PRODUCED MIXED RESULTS. SWISS ARMS INDUSTRY URGED MORE LIBERAL POLICY ON ARMS EXPORTS DEMAND FOR LABOR CONTINUED TO DECLINE. WATCH INDUSTRY REPORTED NEW AGREEMENT FOR PRODUCTION LIQUID CRYSTAL READOUTS AS WELL AS TWO TAKEOVERS. RATE OF NEW BANKRUPTCY FILINGS SHOWED SOME SLACKENING IN 1976.

2. FOREIGN EXCHANGE AND GOLD: DOLLAR RATE AGAINST SWISS FRANC ROSE FROM SF 2.50 TO SF 2TR AND RATE FOR DM 100 WENT FROM SF 104 TO SF 106 IN ACTIVE MARKET. EXCHANGE DEALERS CONTESTED VIEWS OF SOME US EXPERTS THAT DOLLAR RATE MIGHT RISE TO BETWEEN SF 2.94 AND SF 3.33 THIS YEAR. BANKERS DISCOUNTED US PREDICTIONS OF INFLATIONARY IMPACT FROM INCREASED SWISS MONEY SUPPLY. SWISS ATTRIBUTED SUDDEN EXCHANGE RATE CHANGE TO CURRENT INTEREST RATE DIFFERENTIALS WITH APPRECIABLY HIGHER RATES AVAILABLE ABROAD, SWISS TRADE DEFICIT, CAPITAL MARKET DEVELOPMENTS AND IMPROVED US ECONOMIC OUTLOOK WHICH HAS INCREASED US CAPITAL INFLOWS. SWISS CAPITAL EXPORT CONVERSION RULE WAS SAID TO HAVE ADDED TO DEMAND FOR DOLLARS, BUT SNB HAS NOT COMMENTED ON EXCHANGE RATE DEVELOPMENTS. FORWARD DISCOUNT RATES DECLINED, REFLECTING MONTH-END DEMAND FOR FRANCS. GOLD PRICES ALSO ROSE SHARPLY TO 140 THURSDAY BEFORE CLOSING FRIDAY AT 139. RATES FOLLOW:

ITEM - 2/21(OPEN) - 2/25(CLOSE)  
SPOT DOLLAR - 2.5055 - 2.5435  
FORWARD DISCOUNTS(PCT P.A.)  
ONE MONTH - 2.91 - 2.73  
2MONTHS - 3.24 - 2.52  
3 MONTHS - 3.20 - 2IP  
6 MONTHS - 3.47 - 2.91  
12 MONTHS - 3.44 - 3.06  
SF/DM - 104.91 - 106.26  
GOLD - 137 - 139.75  
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3. CAPITAL AND MONEY MARKETS: CALL MONEY RATE ROSE TO 2 PERCENT AS BANKS MOVED TO COVER MONTH-END REQUIREMENTS. MARKET LIQUIDITY (GIRO CLEARING ACCOUNTS AT SNB) FELL FROM SF 6.1 BILLION FEB 15 TO SF 5.5 BILLION FEB 23. SNB DELAYED UNTIL FEB 24 AGREEMENT FOR MONTH END SWAPS. SNB FEB 28 RELEASED SF 220 MILLION IN REQUIRED RESERVES ON FOREIGN OBLIGATIONS TO PROVIDE ADDITIONAL LIQUIDITY. STOCK PRICES ROSE SLIGHTLY; SKA INDEX (1959 EQUALS 100) 225.50 FEB 25. AVERAGE YIELD CONFEDERATION BONDS 3.97. SNB REPORTED THAT DOMESTIC BANK CREDIT GREW FASTER IN 1976 THAN IN 1975 BUT DID NOT REFLECT REVIVED BUSINESS ACTIVITY. CREDIT GROWTH ATTRIBUTED CHIEFLY TO EXPORT FINANCING AND EXTERNAL CREDIT OPERATIONS WHILE DOMESTIC CREDIT GROWTH REFLECTED CONSOLIDATION OF PREVIOUS YEARS BUILDING LOANS AND BORROWING BY PUBLIC AUTHORITIES. SWISS BANK CORP WILL CUT INTEREST RATES ON SAVINGS DEPOSITS BY 0.5 PERCENT TO 3 PERCENT AND BANKS IN BASEL AND ZURICH

WILL CUT THEIR DISCOUNT RATES BY 0.25 PERCENT TO  
3.75 PERCENT EFFECTIVE APRIL 1.

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TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00  
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01  
ABF-01 /106 W

-----020943 108807 /12

R 020746Z MAR 77  
FM AMEMBASSY BERN  
TO SECSTATE WASHDC 3972  
INFO AMEMBASSY BONN  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
USMISSION GENEVA  
USDEL MTN GENEVA  
AMCONSUL ZURICH

UNCLAS SECTION 2 OF 2 BERN 798

PASS TREASURY AND FRB

ECONOMIC

4. FEDERAL FINANCIAL PLAN: CRITICS OF FEDERAL COUNCILS'S  
FOUR-YEAR FINANCIAL PLAN LEADING TO BALANCED FEDERAL  
BUDGET IN 1980 (BERN 722) HAVE LABELLED IT DISASTROUS  
WHEN QUOTE PRESENT RECESSION UNQTE CALLS FOR DEFICIT  
SPENDING. THEY ARGUE THAT ECONOMIC RECOVERY DEPENDS  
ON STIMULATING DOMESTIC DEMAND SO LONG AS FOREIGN DEMAND  
REMAINS WEAK, AND INCREASED IMPORTS WOULD PUT DOWNWARD  
PRESSURE ON SWISS FRANC THUS HELPING COMPETITIVE POSITION  
OF EXPORT INDUSTRIES. OTHERS EXPRESSED CONCERN  
THAT REDUCED FEDERAL SUBSIDIES FOR CANTONS AND TOWNS  
WILL LEAD TO HIGHER TAXES BEING IMPOSED BY THOSE AUTHORI-  
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TIES. CRITICIS ALSO CALLED FOR IMPLEMENTATION OF GOVERNMENT'S FOURTH RECOVERY PROGRAM WHICH IS BEING KEPT IN READINESS IF ECONOMIC SITUATION WORSENS. HOWEVER, RESULTS OF SWISS OPINION POLL TAKEN IN AUTUMN 1976 AND JUST RELEASED SHOW THAT 48.7 PERCENT OF SWISS FAVORED GOVERNMENT PLAN WHILE 37 PERCENT OPPOSED, AND 58 PERCENT BELIEVED GOVT SHOULD ECONOMIZE MORE.

5. METAL AND MACHINE INDUSTRY: OVERALL INDUSTRY WORK ORDER RESERVE DECREASED FROM 7.8 MONTHS END SEPT 1976 TO 7W MONTHS END DECEMBER. VALUE OF ORDERS ON HAND IN FOURTH QUARTER 1976 DECREASED 3 PERCENT TO SF 12W BILLION COMPARED TO SAME PERIOD 1975. HOWEVER, NEW ORDERS OF SF 3.3 BILLION WERE NEARLY 3 PERCENT ABOVE FOURTH QUARTER 1975. NEW ORDERS FROM ABROAD WERE 64.5 PERCENT OF TOTAL COMPARED TO 63.7 PERCENT IN 1975. SITUATION IS WORSE IN CERTAIN SECTORS THIS KEY INDUSTRY, PARTICULARLY STEEL WORKS WHERE WORK BACKLOG HAS FALLEN TO 2 MONTHS FROM 5.7 MONTHS END 1975. TEXTILE MACHINE INDUSTRY WORK BACKLOG FELL 32.8 PERCENT TO 4.9 MONTHS FROM END 1975 WHILE BACKLOG FOR MACHINE TOOLS FELL 10 PERCENT TO 5.8 MONTHS LAST YEAR.

6. SWISS ARMS INDUSTRY: DIETER BUEHRLE OF OERLIKON-BUEHRLE AG SAID THAT ORDERS FOR SWISS ARMS EXPORTS ARE RESTRICTED BY SWISS LAWS REGARDING ULTIMATE DESTINATION AND END USE OF WEAPONS WHICH MUST BE USED FOR SELF DEFENSE AND NOT REEXPORTED. BUEHRLE SAID SWISS RESTRICTIONS PREVENTED SIZEABLE ORDERS BY GENERAL ELECTRIC AND NORTHROP COMPANIES IN OFFSET SALE OF F-5E TIGER AIRCRAFT TO SWITZERLAND. BUEHRLE SUGGESTED LIFTING MANY RESTRICTIONS WITHOUT RENUNCIATION OF NATIONAL PRINCIPLES, ESPECIALLY BY MAKING DISTINCTION BETWEEN QUOTE HARD UNQUOTE WAR MATERIAL AND ELECTRONIC COMPONENTS.

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7. LABOR: A) FIRESTONE (SWITZ) IS NEGOTIATING WITH LABOR UNIONS LAYOFF OF 150 EMPLOYEES FROM ITS TIRE FACTORY AT PRATTELN BECAUSE OF REDUCED EXPORT SALES. BECKMAN INSTRUMENTS OF CALIF ANNOUNCED TRANSFER OF ITS AIR POLLUTION MEASUREMENT EQUIPMENT PLANT (WITH 62 EMPLOYEES) FROM GENEVA TO THE NETHERLANDS BECAUSE OF CONTINUED LOSSES FROM HIGH LABOR COSTS AND LOW EXPORT SALES. BECKMAN RETAINS ITS EUROPEAN HEADQUARTERS WITH 150 EMPLOYEES IN GENEVA.

B) FOLLOWING SHOWS FIRMS AND EMPLOYEES WORKING REDUCED HOURS.

ITEM - JAN 1977 - END DEC 1976

FIRMS - 1,295 - 967

WORKERS - 25,479 - 25,790

HOURS - 1.08 MILLION - 1.07 MILLION

8. BANKRUPTCIES: FOLLOWING SHOWS NUMBER OF NEW BANKRUPTCY FILINGS IN 1976 AND PERCENT CHANGE FROM 1975 COMPARED TO PREVIOUS YEARS.

ITEM - 1973 - 1974 - 1975 - 1976

BANKRUPTCIES - 650 - 855 - 1,322 - 1,515

PCT CHANGE - NIL - 31.54 - 54.62 - 14.60

9. WATCH INDUSTRY DEVELOPMENTS: EBAUCHES SA, WORLDS LARGEST WATCH MOVEMENT MANUFACTURER, SIGNED COOPERATIVE AGREEMENT WITH BROWN BOVERI CO FOR BBC TO PRODUCE 4 MILLION LIQUID CRYSTAL READOUTS IN 1977, 3 MILLION FOR SWISS WATCH INDUSTRY, REST OF EUROPE AND FAR EAST. PORTESCAP, SWISS WATCH PARTS MANUFACTURER, TOOK OVER WATCHMASTER PRODUCTS INC, NEW YORK BASED DISTRIBUTOR OF WATCH PARTS FROM BULOVA. HEIWADO, LARGE JAPANESE WATCH DISTRIBUTOR, PURCHASED 40 PERCENT OF WALTHAM

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INTERNATIONAL CORP OWNED BY SGT GROUP WHICH ALSO OWNS ELGIN IN US.

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## Message Attributes

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